Trapped in the doldrums

Disappointing pension plan needs a change of tack, writes Maisha Frost

The problem

OFFICE worker Derek Lindley's work pension scheme is in the doldrums. Because of poor performance, no contributions have been made to the Scottish Equitable (SE) with-profits plan for a couple of years.

A more recent Friends Provident (FP) scheme seems better. Derek, from West Yorkshire, wants to know whether to transfer his fund, which matures in five years' time.

If he goes, SE will deduct an £800 market value adjustment penalty, leaving £11,360. However, this may be offset by a final bonus of £375. Derek says: "I've got lost in the pros and cons. Please help."

The solution

WORKERS often feel powerless when it comes to occupational pensions, says independent financial expert Nicola Downs. "Advisers come in and set them up for companies, then they move on," she says. "The old schemes are eclipsed when a new adviser arrives, offering the next best thing. People lose track of who or what to ask. But there is always an adviser somewhere who set up the pension, and holders are entitled to ask them for information and guidance."

Derek's problem is not with the pension company but the kind of fund his money is in. The with-profits type has done badly recently and relies on bonuses, which can be withdrawn at any time, to boost investments.

"If the FP scheme is also with-profits, he could end up in a similar boat," says Downs. "He needs to check what kind of plan it is and what spread of investments both contain. He may find they are similar."

Based on Derek's information, the SE market reduction would be 6.2 per cent of his fund. However, the exit bonus would partially compensate and make it just 3 per cent. "So, if Derek moves, his new fund will need to make up that 3 per cent or more in the years he has left, over and beyond any new set-up charges that will be added," says Downs.

She then checked a similar bonus rate record for SE: 1.5 per cent in 2004, 0.5 per cent in 2005, and 0 per cent for this year. "The outlook is very poor," she says.

Derek can either stick with the dormant SE fund or pay the price and transfer. But there is a third way, the one Downs favours, particularly because time is not on Derek's side. "He could stay put and avoid the penalties but switch the actual investments within SE.

"He needs to find if there are alternative investments allowable in his scheme."

Downs recommends Derek should go for a low-risk mix of UK equities, fixed-interest bonds, property and cash. "He should ask the adviser to diversify his investments and explain the reasons for the choice so they are as transparent as possible," she says. "Normally, the first switch is free of charge.

"That will give Derek back his confidence and be the most cost-effective solution. It should kick-start his pension earnings again.

"He should also find out what returns he can expect and then decide if he wants to start contributing again."

● *Nicola Downs: 01306 881999, www.trenthaminvest.co.uk*

Vital questions for savers

- **How much is my fund worth?**
- **What will that be on maturity?**
- **What is the bonus record of my fund over the past three years?**
- **Is there a terminal bonus?**
- **What will it cost to switch provider?**
- **What percentage of my fund is that?**
- **Is the fund I move to with-profits?**
- **Are its investments similar to the ones I am already in?**
- **What is its performance record, and is it likely to make up the shortfall incurred from penalties?**
- **Can I switch to other, better-performing funds in my scheme?**

If you have a problem, write to Maisha Frost, Sunday Express, The Northern & Shell Building, 10 Lower Thames Street, London EC3R 6EN, or e-mail maisha.frost@express.co.uk. Please include your telephone number.